**STATE OF NEW HAMPSHIRE**

**BEFORE THE**

**PUBLIC UTILITIES COMMISSION**

**Re: Tioga River Water Company**

**DW 09-____**

**DIRECT PREFILED TESTIMONY OF**

**STEPHEN P. ST. CYR**

**June 16, 2009**

Q. What is your name and business address?

A. My name is Stephen P. St. Cyr and my business address is 17 Sky Oaks Drive, Biddeford, Me.

Q. Who is your employer?

A. My employer is Stephen P. St. Cyr & Associates.

Q. What are your responsibilities in this case?

A. My responsibilities are to prepare the financial schedules, the pre-filed direct testimony, and the petition for authority to borrow funds.

Q. Have you prepared testimony before this Commission?

A. Yes, I have prepared and presented testimony in numerous cases before the Public Utilities Commission ("PUC" or "Commission"), including requests for new and expanded franchises, requests for approval of financings including State Revolving Fund ("SRF"), commercial bank and owner financings, and requests for rate increases.

Q. Have you prepared and presented testimony to this Commission on behalf of Tioga River Water Company, Inc. ("Company")?

A. Yes.

Q. What is the purpose of your current testimony?

A. My testimony is in direct support of Tioga River Water Company's filing for Commission approval for both funding and expenditure of $266,000 for two (2) different infrastructure projects to take place in both of the Company's water divisions. The Company is also seeking an order "NISI" from the Commission.

Q. Why is the Company asking for approval of an order "NISI"?

A. The Company is asking the Commission to issue an order "NISI" due to funds becoming available to the State for "shovel ready" infrastructure projects through the recently passed Federal Legislation, the American Recovery and Reinvestment Act of 2009 (ARRA), or better known as the Federal Stimulus Package.

Q. What process did the Company have to follow?

A. The New Hampshire Department of Environmental Services (NHDES), through its State Revolving Fund ("SRF"), received ARRA funds, which they have to spend in a prudent but expeditious manner in order to adhere to the Federal guidelines. As such the NHDES notified all water utilities in the state, posted the guidelines for qualifying projects and solicited pre-application filing for projects. The Company submitted pre-applications for 2 projects totaling $303,000. NHDES evaluated each project as to need, economics of the area, and other criteria, which lead to each project receiving a ranking from 1 to 265. The NHDES then started at the top until the money ran out.

Q Is that the extent of the uniqueness of the process?

A. No. The speed demands on these projects are accelerated throughout the project life and over all governmental agencies from Federal to State to Local. The project administrators, the NHDES, have been instructed that if proper approvals for the projects are not received from the local communities, or in our case, the NHPUC, in an expeditious manner, then the project dollars will be withdrawn and awarded to the next project in line.

This is all being done to expend the "Stimulus Money" as quickly as possible in order to maximize the economic impact of the process.

Q Thank you, Mr. St. Cyr for that explanation of uniqueness of the situation. Is that all?

A. No. The availability of funds and time are not the only factors that make this situation unique. One-half (1/2) of the funds received from the ARRA program will be **grant dollars**. The **grant dollars** do not have to be repaid, and will be treated as Contribution in Aid of Construction ("CIAC"). The contributed assets funded with grant dollars are not recoverable by the utility and do not earn a return on the funds, thereby having **no impact on rates**. The second half of the funds must be repaid over a 20 year period at an interest rate of 3.744%. Without speedy action by the Commission and its Staff, and especially the Company, these vital infrastructure improvements will be delayed and will cost the Company and its customers more.

Q. Thank you! Can you now explain in a little more detail, through your testimony, the Company's purpose for this proposed financing and step increase?

A. The purpose of my testimony is to support the Company's effort to obtain PUC approval to borrow funds from the State Revolving Funds and to use such capital (1) to remove an existing underground pump station and replace it with an above ground pump house with new pumps and filtration system at the Tioga division and (2) to replace booster pumps and install iron and manganese filtration system and back up generator the Gilford Village Water District ("GVWD") division.

Q. Please describe the pump station situation at the Tioga division.

A. At Tioga, the Company obtains its water from one, active, bedrock well. Water is pumped from the well into an underground, confined space pump station, where water passes a source sampling tap and a water meter and leaves the pump station and enters a 10,000 gallon atmospheric tank. Two 3 HP booster pumps transfer the water from the atmospheric tank into two pressure tanks. The untreated water is then distributed to 22 service connections supplying a population of about 55 people.

Q. Why is it necessary to remove the existing underground pump station and replace it with an above ground pump station?

A. It is necessary because the existing pump station is difficult to access and work on and is at risk of flooding.

Q. When does the Company anticipate that the pump station will be completed?

A. The Company anticipates that the project will be completed in the summer/fall 2009.

Q. What are the costs of removing the existing pump station and cost of constructing the new pump station?

A. The estimated costs of the removing the existing pump station and constructing the new pump station are $151,000.

Q. Please describe the project at GVWD.

A. At GVWD, the Company obtains its water from three active bedrock wells. Water is pumped simultaneously from the three active wells to the pump house, passing individual source meters and taps and then entering and blending in a 12,000 gallon atmospheric tank. Two booster pumps transfer the water to a 5,000 gallon hydro-pneumatic tank, before being distributed to the previous 36 service connections supplying approximately 90 people. In addition, an additional service connection now supplies an elderly housing complex consisting of 24 units and approximately 130 people.

Q. Why is it necessary to replace the booster pumps and install iron and manganese system and back up generator?

A. During the summer of 2008 there were continuous issues with brown water and water pressure during the peak demand during the weekends.

Q. When does the Company anticipate that the booster pumps, filtration system and generator will be completed and placed in service?

A. The Company anticipates that the booster pumps, filtration system and generator will be completed and placed in service in the spring/summer 2009.

Q. What are the costs of the installation of the booster pumps, filtration system and generator?

A. The estimated costs of the booster pumps, filtration system and generator are $115,000 (less than the $151,500 amount requested on the pre-application filing).

Q. Please summarize the total costs to be financed.

A. A summary is as follows:

| | |
|---|---|
| Pump Station at Tioga | $151,000 |
| Pumps, Filtration System and Generator at GVWD | 115,000 |
| Total Financing | $266,000 |

Q. How does the Company propose to finance the projects?

A. The Company proposes to finance the project with state revolving funds provided by the federal government as part of the American Recovery and Reinvestment Act.

Q. How much is the total financing?

A. The total financing amounts to $266,000, of which $133,000 will be a grant and $133,000 will be a SRF loan.

Q. What are the terms and conditions of the SRF loan?

A. The term is 20 years. The interest rate is 3.744%. The Company is assuming that the loan repayment begins January 1, 2010.

Q. Why should the Commission approve the ARRA financing?

A. The Commission should approve the financing because the proposed ARRA financing is in the best interest of the public and consistent with the public good. The financing enables the Company to complete two projects and enhance the Company's ability to provide safe, reliable and adequate water to its customers. The projects are necessary in order to insure present and future water supply.

Q. How is the Company proposing to recover the investments subject to this financing?

A. The Company will soon file a rate case, which will include step increases to recover these investments.

Q. What are the consequences if rates are not approved?

A. **If the rates not approved, the Company would be unable to repay the SRF loan to the State. If the Company cannot repay the SRF loan, NHDES would have no choice but to disqualify the Company from receiving the funds for the two projects. If the Company is disqualified from receiving the funds, the projects would be delayed indefinitely. If and when such projects were to go forward at a later date, both the Company and its customers will pay more.**

Q. What is the Company proposing for the step increases associated with these projects?

A. The Company is proposing a step increase for each project. The step increases would go into effect upon completion of all projects and when such projects are providing service to customers. The Company anticipates that two projects will be completed by summer/fall 2009. The Company believes that a likely timeline would be for service to be provided by September 30, 2009 and new rates to be billed on or about January 1, 2010.

Q. What is the revenue requirement associated with the step increases?

A. The revenue requirements are $8,109 and $7,473 for Tioga and GVWD, respectively.

Q. Do you have any schedules as part of your testimony?

A. Yes. There is one set of schedules identified as SPS 1 thru 11.

Q. Would you please explain Schedule SPS 1-1, entitled Balance Sheet – Assets and Other Deferred Debits?

A. Yes. Generally, column (a) identifies the line number on the schedule. Column (b) references the PUC account number. Column (c) provides the account title. Column (d) identifies the actual October 31, 2008 account balances. Column (e) identifies the financing and step increase adjustments to the October 31, 2008 account balances. Column (f) is the sum of columns (d) and (e) and identifies the proformed October 31, 2008 account balances.

Q. Please explain the adjustments related to ARRA financing and step increases.

A. Schedule SPS 1-1 contains 4 adjustments.

The first adjustment to Utility Plant represents the net additions (additions less retirements) to plant in service for the two projects. The total of the net additions to rate base amounts to $266,000.

The second adjustment of $7,997 to Accumulated Depreciation is for the net of the retirements and the half-year depreciation on the $266,000 of plant additions.

The third adjustment of $3,769 to Cash is the net of the cash received from the financing and the proposed step increases, less payment for the new plant, the repayment of the new loan, and the payment of operating expenses.

The fourth adjustment of ($100) to Unamortized Debt Expense is the net of the costs incurred in order to pursue PUC approval of the financing and the amortization of those expenditures related to the financing.

Q. Please explain Schedule SPS 1-2, entitled Balance Sheet – Equity Capital and Liabilities.

A. The description of the columns is the same as SPS 1-1.

Q. Please explain the adjustments related to the financing and step increases.

A. Schedule SPS 1-2 contains 3 adjustments.

The first adjustment of $3,826 to Retained Earnings represents the net income impact of the various income statement transactions (i.e., revenue, operating and maintenance expenses, depreciation and amortization expenses, taxes and interest expense).

The second adjustment of $128,444 to Other Long Term Debt represents the net amount of the additional debt financing of $133,000 and the first year repayment on the additional debt financing of $4,556.

The third adjustment of $129,002 to Contribution in Aid of Construction – Net represents the amount of the federal grant of $133,000 less the half-year amortization on the $133,000 of contribution in aid of construction.

Q. Would you please explain Schedule SPS 2, entitled Statement of Income?

A. The description of the columns is the same as SPS 1-1.

Q. Please explain the adjustments related to the ARRA financing and step increase.

A. There are a number of adjustments to the Statement of Income.

The first adjustment of $15,582 to Operating Revenue represents the revenue requirement associated with the additions to plant. The revenue requirement allows the Company to recover its investment, earn a return on the unrecovered investment, and to recover its operating expenses.

The adjustments of $6,753 to Operating Expenses consist of adjustments to O & M expense, depreciation, amortization of CIAC and taxes other than income. The significant adjustments are the increase in depreciation expense associated with the new plant, the increase in amortization of CIAC associated with the portion of the new plant that was contributed via the federal grant, and the increase in the taxes other than income associated with state and local property taxes on the new plant.

The adjustments to Interest Expense of $4,902 and Amortization of Debt Expense of $100 represents the first year interest expense on the additional debt financing and the first year amortization of the financing costs.

Q. Would you please explain Schedule SPS 3, entitled Capital Structure?

A. The actual 10/31/08 Fiscal Year End Balances is reflected on this schedule. In addition, the proformed 10/31/08 Fiscal Year End Balance reflects the impact of the ARRA financing and step increase. The related capitalization ratios are shown on the bottom half of the Schedule. Overall, in recent years, the Company's debt to equity position has deteriorated. The deterioration is primarily due to the addition of long term debt to fund plant and increased operating expenses that are not reflected in rates. The Company also expects to have net loss for the fiscal year ending 10/31/09. The Company believes with new rates, including the step increases related to these two projects, earnings will improve.

Q. Please explain Schedule SPS-4, entitled Journal Entries.

A. Schedule SPS-4 identifies the specific journal entries used to develop the proforma financial statements. The significant journal entries are the recording of (1) JE#2, the ARRA financing, (2) JE#4, the utilization of the funds for the construction of plant, (3) JE#9, the repayment of the principal and interest on the loan, and (4) JE#11, the receipt of revenue, less the increase in operating expenses from the step increases.

Q. How does the Company propose to repay the new debt?

A. The Company's ability to repay the new debt is only possible with approval of new rates including step increases related to these projects.

Q. Would you like to explain SPS-5 – Preliminary Calculation of Revenue Requirement for Tioga and GVWD?

A. For Tioga, the sum of the additions to plant of $151,000, less the related accumulated depreciation of $3,709, results in net plant of $147,291. The sum of the CIAC of $75,500, less the related accumulated amortization of $1,855, results in net CIAC of $73,645. The addition of the net plant of $147,291, less the net CIAC of $73,645, results in a total additional rate base of $73,645. The Company is applying the ARRA cost of debt of 3.744% to determine the additional net operating income required of $2,757. In addition, the Company adds total increase in operating expenses of $5,351 to the additional net operating income required in order to determine the total additional revenue requirement of $8,109. The additional revenue requirement of $8,109 added to the adjusted 10/31/08 actual operating revenues results in a total revenue requirement of $19,037.

For GVWD, the sum of the additions to plant of $115,000, less the related accumulated depreciation of $4,288, results in net plant of $110,712. The sum of the CIAC of $57,500, less the related accumulated amortization of $2,194, results in net CIAC of $55,356. The addition of the net plant of $110,712, less the net CIAC of $55,356, results in a total additional rate base of $55,356. The Company is applying the ARRA cost of debt of 3.744% to determine the additional net operating income required of $2,073. In addition, the Company adds total increase in operating expenses of $5,400 to the additional net operating income required in order to determine the total additional revenue requirement of $7,473. The additional revenue requirement of $7,473 added to the adjusted 10/31/08 actual operating revenues results in a total revenue requirement of $20,474.

Q. Would you please explain SPS-6?

A. SPS-6 is a schedule of plant and depreciation. The Company is using "typical water company service lives and depreciation rates" on the new plant.

Q. Would you please explain SPS-7?

A. SPS-7 is a schedule of CIAC and amortization of CIAC. The Company is using the same service lives and depreciation rates for the amortization of CIAC as the Company used for the depreciation of the contributed assets.

Q. Would you please explain SPS-8, Taxes other than Income?

A. SPS-8 is a schedule of state utility property taxes and local property taxes. Please note that the Company is assuming that the assessed value for state and local property taxes is 50% of the total plant costs. The Company is then applying the 2008 state and local property tax rate to the state and local property tax assessment.

Q. Would you please explain SPS-9, Income Taxes?

A. SPS-9 is a schedule of state business taxes and federal income taxes. The Company is utilizing the business profit tax rate of 8.5%. The Company is utilizing the federal income tax rate of 15%.

Q. Would you please explain SPS-10, Source and Use of Funds?

A. SPS-10 is a schedule showing the total costs of the projects, the total source of funds and the total use of funds. Half of the funds are a loan and half of the funds are a grant. The uses of the funds are identified for each of the projects.

Q. Would you please explain SPS-11, Estimated Financing Costs?

A. SPS-11 is a schedule showing the estimated costs to pursue and obtain PUC approval of the financing.

Q. What does the Company propose to do with the estimated costs of the financing and step increase?

A. The cost to pursue and obtain PUC approval of the financing will be deferred. The financing costs will be added to the annual cost of the debt and reflected in the weighted, average interest rate.

Q. Is there anything else that the Company would like to bring to the Commission's attention?

A. No.

Q. Please summarize the approvals that the Company is requesting.

A. The Company respectfully requests that the PUC approve by NISI order the ARRA financing of $266,000, $133,000 of which is a loan and $133,000 of which is a grant.

Q. Does this conclude your testimony?

A. Yes.

SPSt. Cyr
06/16/09